
Request No. AG-1-63

Please provide a complete and detailed description of each self-insurance procedure that the Company has in effect. For each, please provide (but do not limit the response to) the following information:

(1) a description of the nature of the risks being insured;
(2) a year 2000 and year 2001 accounting of the self-insurance plan costs including the year beginning and ending reserve balance and an itemization of the debits and the credits to the reserve during the year as well as a five-year history of the debits and credits to that reserve; and
(3) a complete and detailed description of the methodology used to determine the annual year insurance expense including all calculation, formulas, assumptions, and workpapers.

Response:

The Company self-insures two types of risks: A) medical insurance and B) general liability insurance.

A) <u>Medical Insurance</u>:

1) The Company began self-insuring its employee medical insurance plan starting 1/1/2001. The first $125,000 in medical claims for each family unit are self-insured by the Company; claims over $125,000 per family are covered by stop loss insurance. In addition, if total claims for the year for the entire Unitil plan exceed 125% of expected claims, then all claims above 125% of expected claims are also paid by the stop loss insurance.

2) Because self-insurance of health insurance began 1/1/01, there are no such costs prior to this date. Total 2001 plan costs of $510,884 have been split between the gas and electric expenses according to the ratio of total salaries. The gas amount of $220,293 has been itemized on Attachment AG-1-63G part A. A detailed listing of 2001 activity in the reserve account is also included on Attachment AG-1-63G part B. The reserve account tracks three components in the recording of medical insurance. They are as follows:
   (a) USC Corp Policy True up – please refer to 3b below
   (b) Excess Claims Experience – please refer to 3b below
   (c) Incurred But Not Recorded (IBNR) – please refer to 3c below

3) There are five components that Unitil tracks in the recording of medical insurance expense. These are listed below:

(a) Unitil Service Corp makes weekly estimated claims payments to Anthem Blue Cross Blue Shield (BCBS). Although the payment is made on behalf of all the Unitil companies, it is allocated to each of the subsidiaries according to headcount and type of insurance (i.e. single, family).
(b) On a monthly basis, BCBS sends Unitil a claims settlement report, which lists out the actual claims for each company. The trueup amount is recorded in the reserve account on Unitil Service Corp's books. (See Attachment AG-1-63G, a) During September 2001, an analysis was performed on the reserve account. The reserve account had a debit balance. This meant the actual claims were higher than the estimated payments, and therefore the expense for each company needed to be charged to each affiliate. The same allocation was used as the estimated claims payments. (See Attachment AG-1-63G, b)
(c) Unitil calculates monthly an amount representing the two month lag in insurance claims, referred to as IBNR. The lag during 2001 was for the months of November and December. The majority of claims for these months were not processed until 2002. (See Attachment AG-1-63G, c).
(d) USC pays a monthly administrative fee that gets allocated based on affiliate headcount and type of policy/coverage. USC also pays for a Stop Loss premium to limit claims exposure. Please refer to the limits identified in item 1 above. This cost is also allocated to the affiliate companies based on headcount and type of policy/coverage.
(e) Total medical insurance expense differs from the cost of the policy as employees contribute towards a portion of the premium through payroll deductions. Payroll deductions are recorded in their own expense account. The combination of these two accounts total the true cost of medical insurance to FGE.

B) General Liability Insurance

1) The Company self-insures the first $200,000 of each general liability claim. Claims over $200, 000 are covered by an Excess Liability Insurance Policy. This policy covers all general liability risks or exposures that result from normal utility business operations. Unitil Service Corp. administers this program.
2) Attachment AG-1-63G part C shows summaries of the activity to the General Liability Self-Insurance Reserve Account of FG&E Electric and Gas combined for the periods 1998 to 2001.For general liability, prior to 1998 all costs were booked directly to expense. In 1998, the Company set up a reserve account to accrue for expected losses that occur annually. The claims paid are recorded as debits to the General Liability Reserve Account, and the estimated losses are accrued on a monthly basis as credits to this account.

Person Responsible: Mark H. Collin